ACCOUNTING FOR RETAIL MUSIC STORES

MUSIC INDUSTRIES CHAMBER OF COMMERCE, INC.

FOR THE ADVANCEMENT OF MUSIC

Press of
THE SEAVEY COMPANY
PORTLAND, ME.

FOREWORD

The following accounting system report is the result of suggestions made by the Music Industries Chamber of Commerce two years ago to the business schools of several leading universities and colleges, to the effect that the need in the music trade for a more general use of proper accounting methods presented an unusual opportunity for research and investigation. At the Amos Tuck School of Dartmouth College, Mr. M. W. Newcomb of the Class of 1922 and Mr. E. D. Smith of the Class of 1923 made such investigations under the supervision of Professor Archie M. Peisch, Certifiied Public Accountant, of the Amos Tuck School Faculty. The results of this work were so gratifying that at the further request of the Chamber, the Tuck School offered to co-operate in the preparation of an accounting system which could be recommended for use by retail music merchants.

The following report was compiled and written by Professor Peisch and is based largely upon his own practical accounting experience in the field of retail music merchandising. The accounting methods and forms, substantially as described herein, have been successfully installed by Professor Peisch in a number of music stores. The work has also had the advantage of the painstaking review and constructive criticism of a Special Committee of the Chamber.

It is the belief of the Committee that the system is thoroughly practical and meets the requirements of any music store. However, it should be remembered that any system should be adapted to the individual business and not the business to the system. Competent accounting services should be employed in installing the system and adapting it to the need of the business.

The Chamber takes pleasure in acknowledging the very valuable services of the Amos Tuck School of Dartmouth College and especially the personal interest and effort of Professor Peisch, without which this work would not have been possible.

MUSIC INDUSTRIES CHAMBER OF COMMERCE

R. W. Lawrence, President — Alfred L. Smith, Secretary

C. L. Dennis, Manager
TRADE SERVICE BUREAU

SPECIAL COMMITTEE

C. J. Roberts,
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Joseph P. Meade,
American Piano Co.

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Herbert W. Hill & Co.

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Gulbransen-Dickinson Co.,

W. B. Williams, Haddorff Piano Co.

May 25, 1923

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ACCOUNTING FOR RETAIL MUSIC STORES

CHAPTER I

GENERAL

Value of Scientific Accounting

Accounting is a statistical method of presenting the operating results of a business for a given period of time. The purposes to be accomplished by an accounting system may be stated as follows:

First: To set forth the financial condition of the business, what the business owns and owes, as of any given date.

Second: To show the Net Profit or Net Loss that has resulted from a given period's operations.

The primary objective of business is Profits. Therefore to know the Net Profit or Net Loss resulting from a period's operations is to know the extent to which a business enterprise has succeeded or failed to accomplish the principal purpose for which it was organized. Furthermore, what has been accomplished in the past indicates to a considerable extent what can be accomplished in the future. The detailed accounting statements now generally requested by bankers of borrowing customers, in accordance with the recommendations of the Federal Reserve Board and American Bankers Associations, bear excellent proof of the extent to which bankers estimate the ability of a borrowing customer to make the money necessary to pay his obligations, on the basis of past accomplishment. The high opinion that the bankers of the country hold of the value of accurate accounting information is most significant. The interest of a banker in the enterprise of a borrowing customer is essentially the same as the interest of the customer. Like the customer, the banker has invested money in the enterprise. Like the customer, he expects his investment to be preserved intact and to net him a fair return. The safety of his investment, as well as the return it will yield, depends of course on the ability of the concern to make money. And, if the banker, through his daily contact with a large number of concerns has found that a great deal of reliable information relative to the present and future welfare of a business enterprise can be derived from accounting statements, this ought also to be the case with those who own and manage the enterprise.

Accurate accounting information will also enable a business manager to locate and correct the errors of the past. A com-

prehensive statement of the sources of profit and causes of loss for a past period will help a manager to identify the classes of sales that produce the most as well as the least revenue and to shape his future sales policy accordingly. Sales, of course, count for little unless they bring more value into the business than they take out. Furthermore, such a comprehensive statement of operations will enable a manager to discover those expenses that can be eliminated or reduced in the future. In this connection, Taylor always insisted that the most productive source of business profits was the elimination of waste.

However, although it is generally assumed that a business manager can derive a great deal of assistance from accurate accounting information, there is considerable confusion as to the methods by which such information should be provided. There are some merchants, for example, who through constant painstaking personal observation are able to tell very accurately from month to month how much they have made or lost without the assistance of scientific accounting methods. Nevertheless, to keep in touch with all the detailed matters essential to such an accurate knowledge of operating results requires time of the manager or proprietor that could be better spent on the more productive work of sales and administration. Accounting methods can to a large extent be made automatic and, as a result, can be carried out by subordinates whose time is worth a great deal less to the business than that of the proprietor or manager. The introduction of scientific accounting methods is, therefore, to be recommended not only because of the value of the information which such methods provide but also because of the economy in time and worry to the management that such methods will effect.

Balance Sheet

The Balance Sheet or Statement of Assets and Liabilities is the principal accounting statement prepared. The balance sheet of any business on any given date shows the financial condition of the business, what the business owns and owes, on that date. The following is a typical Music Store Balance Sheet:

MUSIC STORE

BALANCE SHEET, JULY 31, 1922.

Assets

Current Assets			
Cash		$1,162.78	
Accounts Receivable		15,920.52	
Inventories		20,238.58	
Total Current Assets			$37,321.88
Permanent Assets			
Store Fixtures	$2,986.00		
Less Depreciation	298.60		
		2,687.40	
Auto Equipment	1,900.00		
Less Depreciation	380.00	1,520.00	
Total Permanent Assets			4,207.40
Prepaid Expenses			
Organization Expense		221.86	
Fire Insurance		321.68	
Liability Insurance		72.80	
Total Prepaid Expenses			616.34
			$42,145.62

Liabilities

Current Liabilities		
Notes Payable	$5,000.00	
Accounts Payable	6,568.25	
Accrued Taxes	127.96	
Accrued Interest	125.00	
Total Current Liabilities		$11,821.21
Net Worth		
Capital Stock	25,000.00	
Surplus	5,324.41	
Total		$30,324.41
		$42,145.62

Determination of Net Profit

In the case of any business for a given period, assuming that there have been no capital withdrawals or contributions by the proprietors, the Net Profit realized is the amount by which the Net Worth, the difference between the assets and liabilities, has been increased. And, conversely, assuming that there have been no additions or withdrawals of capital, the Net Loss incurred is the amount by which the Net Worth has been decreased during the period. If the proprietors have contributed additional capital during the period, the amount of their contributions should be deducted from the increase in Net Worth, to arrive at the Net Profit, or added to the decrease in Net Worth to arrive at the Net Loss of the period. If the proprietors have withdrawn any capital during the period, the amount of their withdrawals should be added to the increase in Net Worth to arrive at the Net Profit, or deducted from the increase in Net Worth, to arrive at the Net Loss of the period.

To illustrate, the assets and liabilities of a store at the beginning and end of 1922 are as follows:

Assets	Jan. 1, '22	Dec. 31, '22	Increase	Decrease
Cash	$5,000.00	$3,000.00	$	$2,000.00
Accts. Rec. ...	60,000.00	80,000.00	20,000.00	
Inventories ...	30,000.00	35,000.00	5,000.00	
Store Fixtures.	5,000.00	5,000.00		
Delivery Equip.	3,500.00	3,000.00		500.00
Total	$103,500.00	$126,000.00	$25,000.00	$2,500.00
Liabilities				
Notes Pay. ...	$20,000.00	$30,000.00	$10,000.00	
Acc. Pay.	10,000.00	8,000.00		$2,000.00
Total Liab..	$30,000.00	$38,000.00	$10,000.00	$2,000.00
Net Worth	$73,500.00	$88,000.00	$14,500.00	
Total	$103,500.00	$126,000.00		

STATEMENT OF PROFIT.

Increase in Assets	$25,000.00	
Less Decrease in Assets	2,500.00	
Net Increase in Assets		$22,500.00
Deduct:		
Increase in Liabilities	$10,000.00	
Less Decrease in Liabilities	2,000.00	
Net Increase in Liabilities		8,000.00
Increase in Net Worth		$14,500.00

The Net Worth of the store has increased $14,500 during the period. Assuming that there have been no additions or withdrawals of capital, a net profit of $14,500 has been realized. If the proprietor had withdrawn capital to the amount of $5,000 during the period, the net profit would be $14,500 plus $5,000 or, $19,500. If the proprietor had contributed $5,000 additional capital during the period, the Net Profit would be $14,500 less $5,000 or $9500. Therefore, if an accounting system is to show what has been made or lost by an enterprise during any given period, it must provide a Balance Sheet at the beginning of the period which will show correctly what the enterprise owned and owed at that time and a Balance Sheet at the end of the period which will correctly show what the enterprise owned and owed at that time.

STATEMENT OF OPERATIONS

However, a statement of *what* the profit or loss of a business has been for a given period is not of much use to the management, unless it is accompanied by a detailed explanation of *how* profit or loss was brought about. Since the profits of a merchandising establishment are realized through the sale of goods or services for more than cost, a statement of the Selling Price of Goods Sold, the Cost Price of Goods Sold, Operating Expenses, Other Income and Other Expenses, for any period will show how the amount of profit or loss shown by the opening and closing Balance Sheets of the Period was realized. For example, in the case of our problem, the profit of $14,500.00 might be explained as follows:

Sales	$90,000.00
Deduct Cost of Goods Sold	54,000.00
Gross Profit	36,000.00
Deduct Operating Expenses	22,000.00
Net Operating Profit	14,000.00
Add Other Income:	
Interest Received	1,000.00
Deduct Other Expense	15,000.00
Interest Paid	500.00
Net Income	$14,500.00

This statement of the causes of Profit and Loss is generally referred to as a Statement of Operations or Profit and Loss Statement. The following is a typical Music Store Statement of Operations:

MUSIC STORE

STATEMENT OF OPERATIONS, JULY, 1922.

Sales	Selling Price	Cost of Sales	Gross Profit
Pianos, New	$4,975.00	$2,800.00	$2,175.00
Machines, New	1,350.00	810.00	540.00
Records	592.35	355.41	236.94
Used Pianos	825.00	497.50	327.50
Used Machines	175.00	129.00	46.00
Music and Small Wares	204.66	143.26	61.40
Repairs	28.28		28.28
Totals	$8,150.29	$4,735.17	$3,415.12
Gross Profit			$3,415.12
Deduct Expenses			
Administrative Salaries		$250.00	
Advertising		105.51	
Association Dues		6.00	
Depreciation of Fixtures		24.75	
Doubtful Accounts		96.20	
Express and Parcel Post		24.48	
Fire Insurance		22.50	
Freight		39.58	
Miscellaneous		19.35	
Office Supplies		19.80	
Postage, Telephone and Telegraph		28.31	
Professional Services		31.25	
Rent		100.00	
Salaries, Sales, Commissions		1,205.28	
Traveling Expenses		389.38	
Trucking Expense		161.88	
Taxes		18.28	
Total Expenses			$2,542.55
Net Operating Profit			872.57
Less Interest Paid			25.00
Net Income of Surplus			$847.57

A Statement of Operations of the above type would enable a merchant to put his finger on most of the principal causes of profit and loss for a particular period and to adjust his future program accordingly. Such a detailed explanation of profit and loss ought to be particularly useful in music merchandising where Sales bear such a direct relation to Sales effort. Although after a time a certain amount of business will come automatically to a music store without requiring any special effort from those in charge of the store, most of the customers' orders must be *sold* and not simply *taken*. A music salesman's worth is almost immediately reflected in the amount of business he turns in. In the same way the efficiency of an advertising campaign soon comes to light in the sales that it does or does not produce.

Requirements of an Efficient System of Accounting

The recommendations in this treatise are based on the assumption that an accounting system should fulfill the following requirements:

1. *Accuracy.* A constant check on the accuracy of all accounting entries should be provided. For example, means should be provided for reconciling regularly charges on sales slips received and approved by customers with the charges to the customers' accounts, cash receipts with cash sales and credits to customers' accounts, the monthly bank statements with the accounting record of bank deposits and checks drawn, and the invoices and statements of creditors with the office record of creditor's accounts. In this way, the accounting records of outsiders are utilized to check the accuracy of the store's own accounting. Also, wherever possible, the accounting work of a store ought to be so organized that the work of each employee is checked by the work of other employees. For example, if one clerk has charge of cash collections, another clerk ought to be put in charge of posting charges and credits to the customers' accounts. In this way, collections from customers will be checked both by the employee who makes the collections and the employee who posts the collections to the customers' accounts.

2. *Flexibility.* Not only do conditions vary a great deal from store to store in the field of music merchandising, but also they frequently vary a great deal from year to year in the case of any particular store. An accounting system should therefore be so constructed that it can be readily adapted to these changing conditions. For example, if a new line of merchandise is taken on or a new department added, it ought to be possible to add the new revenue and expense accounts without any serious disarrangement of the accounting methods and forms already in operation.

3. *Economy of Operation.* The accounting system should provide all the information desired at the least possible expense.

Outline of Work

In this treatise an effort will be made to outline an efficient system for music stores and to this end the steps that must be taken in any system installation will be taken up in the usual order as follows:

First: *A classification of Accounts* will be provided that will set forth the classes of information according to which the significant business information concerning every transaction will be classified. This involves the classification of assets, liabilities, revenues and expense, that is to be made when entries are made in the accounting records.

Second. *The Accounting Forms* will be designed that will accomplish the mechanical work of classifying and recording the accounting information desired concerning the transactions of the business, in accordance with the *Classification of Accounts.*

Third. The *Methods* of handling the various classes of transactions carried out by the particular business involved will be outlined. This involves the work of classifying and recording the necessary accounting information in regard to the transactions of the business and of keeping the accounting records controlled and reconciled so that their accuracy is guaranteed.

Fourth. *The Statements and Reports* that are necessary to the proper direction and control of the business by the management will be outlined and instructions in regard to their preparation provided.

The recommendations set forth on the following pages are in no sense intended to be exhaustive. It is believed, however, that the Classification of Accounts, Forms and Methods recommended can be adapted to the conditions prevailing in any music store and that they will provide a great deal of information that will be useful to the successful management of any music store. Where additional information is required it is believed that the Classification, Forms and Methods can be expanded to meet the requirements.

CHAPTER II

Classification of Accounts

1. *Assets*
    - 10 Current Assets.
        - 101 Cash in Office.
        - 102 Cash in Bank.
        - 103 Customers Receivable.
            - 1031 Installments Receivable.
            - 1032 Notes Receivable.
            - 1033 Other Customers Receivable.
        - 104 Inventories.
            - 1041 New Pianos.
            - 1042 Used Pianos.
            - 1043 New Machines.
            - 1044 Used Machines.
            - 1045 Records.
            - 1046 Small Wares.
            - 1047 Sheet Music.
    - 11 Fixed Assets.
        - 111 Land.
        - 112 Buildings.
        - 113 Store Equipment.
        - 114 Auto Equipment.
        - 115 Office Equipment.
    - 12 *Working Assets and Prepaid Expenses.*
        - 121 Store Supplies.
        - 122 Auto Supplies.
        - 123 Office Supplies.
        - 124 Prepaid Expenses.
            - 1241 Advertising.
            - 1242 Fire Insurance.
            - 1243 Liability Insurance.
2. *Liabilities.*
    - 20 *Current Liabilities.*
        - 201 Notes Payable.
            - 2011 To Banks.
            - 2012 To Others.
        - 202 Accounts Payable.
        - 203 Accrued Expenses.
            - 2031 Salaries and Wages.
            - 2032 Commissions.
            - 2033 Taxes.

204 Allowance for Loss on Bad Debts, Repossessions, etc
21 *Allowances for Depreciation.*
212 Buildings.
213 Store Equipment.
214 Auto Equipment.
215 Office Equipment.
22 Fixed Liabilities.
221 Mortgages Payable.
3. *Net Worth.*
31 Capital Stock.
32 Surplus.
4. *Sales.*
41 New Pianos.
42 Used Pianos.
43 New Machines.
44 Used Machines.
45 Records.
46 Small Wares.
47 Sheet Music.
48 Tuning and Repairs.
49 Rentals
5. *Cost of Sales.*
51 New Pianos.
52 Used Pianos.
53 New Machines.
54 Used Machines.
55 Records.
56 Small Wares.
57 Sheet Music.
6. *Selling and General Expense.*
61 Administrative Salaries.
62 Advertising.
63 Association Dues.
64 Auto Depreciation.
65 Auto Gas and Oil.
66 Auto Insurance.
67 Auto Repairs.
68 Contributions.
69 Collection Expense.
610 Delivery Hire
611 Depreciation of Building.
612 Depreciation of Store Equipment.
613 Depreciation of Office Equipment.

614 Fire Insurance.
615 Freight and Express (Not chargeable to inventories).
616 Heat and Light.
617 Janitor Service and Supplies.
618 Life Insurance.
619 Loss from Repossessions, Uncollectable Accounts, etc.
620 Miscellaneous Selling Expense
621 Miscellaneous General Expense
622 Office Salaries.
623 Office Supplies.
624 Postage, Telephone and Telegraph.
625 Professional Services.
626 Rent.
627 Sales Commissions.
628 Sales Salaries.
629 Taxes.
630 Traveling Expenses.
631 Tuning and Repairs Wages and Supplies.

7. *Other Income.*
71 Interest Received.
72 Discounts Taken.
73 Miscellaneous.

8. *Other Expenses.*
81 Interest Paid.
82 Discounts Given.
83 Miscellaneous.

CHAPTER III.

ACCOUNTING FORMS

Index of Accounting Forms

1. Purchase Order
2. Stock Sheet
3. Sales Slip, Pianos and Machines
4. Sales Slip, other than Pianos and Machines
5. Daily Blotter
6. Book of Original Entry
7. Customer's Monthly Statement,—Installment Accounts
8. Customer's Monthly Statement other than Installment Accounts
9. Customer's Ledger,—Installment Accounts
10. Customer's Ledger,—other than Installment Accounts
11. Creditors Ledger.
12. General Ledger.

FORM 7—CUSTOMER'S MONTHLY STATEMENT. INSTALLMENT ACCOUNTS

M________ Date________192__

Address________

Sold by		Am't Rec'd	Am't For'd
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			

The account
this statement

Payment due this
Payment past due
Interest accrued to
Tuning
Repairs
Cartage
Rent

ittance to
preciated.

PARAGON (TRADE MARK)
RE-ISSUED PAT.NO.12624.MAR.26 07 MFD.BY AMERICAN SALES BOOK CO.LTD.ELMIRA,N.Y.

Form 4 - Sales Slip

Other than Pianos and Machines

(Original)

Price________ Cash Received________

Taken in Exchange

By________

Make________ Amount of allowance________

Style________ No.________

Remarks

________ Salesman

FORM 7—CUSTOMER'S MONTHLY STATEMENT INSTALLMENT ACCOUNTS

19

The account ... tance to
this statement ... preciated.

Payment due this r
Payment past due
Interest accrued to
Tuning
Repairs
Cartage
Rent

Price

Taken in Exchange

Make ____________

Style ____

Cash Received ____________

Amount of allowance ____

No. ____

By ____________

Remarks

____________ Salesman

19.

FORM 7—CUSTOMER'S MONTHLY STATEMENT INSTALLMENT ACCOUNTS

SPACE FOR HEADING

ADVANCE NOTICE

The account as rendered below is payable inst. Kindly attach remittance to this statement when making payment. Prompt attention very much appreciated.

Payment due this month on piano

Payment past due " "

Interest accrued to ( ) now payable

Tuning

Repairs

Cartage

Rent

Price

Taken in Exchange

Make

Style

Cash Received

Amount of allowance

No.

By

Remarks

Salesman

WITHOUT WAIVER OF DEFAULT
OR CONDITION OF CONTRACT.

RECEIPT

$

New York,

Your payment received of

Dollars

Applied on your account, viz.:

Agreement $

Interest

Rent

Per

THIS RECEIPT FOR OFFICE USE ONLY.

Collector has Special numbered Receipt and not authorized to sign this
DON'T PAY Collector unless he presents letter of authority from this house.

19

STATEMENT

Space for Heading

In Account with

Form 8—Customer's monthly Statement other than installment accounts.

Price

Taken in Exchange

Make

Style

Cash Received

Amount of allowance

No.

By

Remarks

Salesman

Form 3—Sales Slip, Pianos and Machines
(Original)

Space for Heading

No.

ate 19

ıg Price $

ced " $

" $

" $

" $

ate

Sales Record

Date

Name

Address

Shipping Instructions

Terms of Sale

Make

First Payment

Style

Monthly Payment

No.

Weekly Payment

Price

Cash Received

Taken in Exchange

By

Make

Amount of allowance

Style

No.

Remarks

Salesman

Form 3—Sales Slip, Pianos and Machines
(Duplicate)

No.

Space for Heading

ate 19

ıg Price $

ced " $

" $

" $

" $

ate

Sales Record

Date

Name

Address

Shipping Instructions

Terms of Sale

Make

First Payment

Style

Monthly Payment

No.

Weekly Payment

Price

Cash Received

Taken in Exchange

By

Make

Amount of allowance

Style

No.

Remarks

Salesman

Make	Style and Fin.	No.

Received from — Date ____ 192__

Allowed — Selling Price $

Inventory Value — Reduced " $

Repairs — " " $

Total Cost — " " $

Sold to — " " $

Date

Date Sold ____ 192__ Salesman

Remarks:

Form 2—Stock Sheet

Please acknowledge this order by number and state when delivery will be made.

By

PURCHASE ORDER No.

Date 19

SPACE FOR HEADING

To

Please Deliver to the Above Address the Following:

Form 1—Purchase Order
(Original)

Please acknowledge this order by number and state when delivery will be made.

By

PURCHASE ORDER No.

Date 19

SPACE FOR HEADING

To

Please Deliver to the Above Address the Following:

Form 1—Purchase Order
(Duplicate)

Please acknowledge this order by number and state when delivery will be made.

By

ACCOUNT

SHEET

FORM 6 DESIGNED BY ARCHIE M. PEISCH C.P.A.

Date	Page	√	Debit	Date	Page	√	Credit	BALANCE	
								Debit	Credit

FORM 12 – GENERAL LEDGER

ACCOUNT

SHEET

FORM 6 DESIGNED BY ARCHIE M. PEISCH C.P.A.

Date	Page	√	Debit	Date	Page	√	Credit	BALANCE	
								Debit	Credit

FORM 12 — GENERAL LEDGER

OCCUPATION

BUSINESS BUS. ADDRESS NAME

REFERENCE ADDRESS

FORM 4 DESIGNED BY ARCHIE M. PEISCH C.P.A.

	PRINCIPAL			Balance	INTEREST 6%			PRINCIPAL			Balance	INTEREST 6%		
	Mo.	√ Date	Paid		Due	Date	Paid	Mo.	√ Date	Paid		Due	Date	Paid
	192							192						
Make	Jan.							Jan.						
Style	Feb.							Feb.						
Number	Mar.							Mar.						
Selling Price $	Apr.							Apr.						
Exchange $	May							May						
Down $	June							June						
Balance $	July							July						
Per Month $	Aug.							Aug.						
No. of Months	Sept.							Sept.						
Sales Slip	Oct.							Oct.						
Salesman	Nov.							Nov.						
	Dec.							Dec.						
	Total							Total						
	192							192						
	Jan.							Jan.						
	Feb.							Feb.						
	Mar.							Mar.						
	Apr.							Apr.						
	May							May						
	June							June						
	July							July						
	Aug.							Aug.						
	Sept.							Sept.						
	Oct.							Oct.						
	Nov.							Nov.						
	Dec.							Dec.						
	Total							Total						

Form 9 Installment Ledger Accounts

NAME

ADDRESS

BUS. ADDRESS

OCCUPATION

BUSINESS

REFERENCE

FORM 4 DESIGNED BY ARCHIE M. PEISCH C.P.A

	PRINCIPAL			Balance	INTEREST 6%			PRINCIPAL			Balance	INTEREST 6%		
	Mo.	√ Date	Paid		Due	Date	Paid	Mo.	√ Date	Paid		Due	Date	Paid
	192							192						
Make	Jan.							Jan.						
Style	Feb.							Feb.						
Number	Mar.							Mar.						
Selling Price $	Apr.							Apr.						
Exchange $	May							May						
Down $	June							June						
Balance $	July							July						
Per Month $	Aug.							Aug.						
No. of Months	Sept.							Sept.						
Sales Slip	Oct.							Oct.						
Salesman	Nov.							Nov.						
	Dec.							Dec.						
	Total							Total						
	192							192						
	Jan.							Jan.						
	Feb							Feb						
	Mar.							Mar.						
	Apr.							Apr.						
	May							May						
	June							June						
	July							July						
	Aug.							Aug.						
	Sept							Sept.						
	Oct							Oct.						
	Nov							Nov.						
	Dec							Dec.						
	Total							Total						

Form 9 Installment Ledger Accounts

FORM 3 DESIGNED BY ARCHIE M PEISCH, C P A

Date	Memoranda	Debit	√	Credit	Balance	Date	Memoranda	Debit	√	Credit	Balance

Form 10 Customers' Ledger Other than Installment Accounts.

FORM 3 DESIGNED BY ARCHIE M PEISCH C P A

DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE	DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE

Form 10 Customers' Ledger Other than Installment Accounts.

FORM 3 DESIGNED BY ARCHIE M. PEISCH, C. P. A.

DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE	DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE

Form 11 Creditors' Ledger.

FORM 3 DESIGNED BY ARCHIE M. PEISCH, C. P. A.

DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE	DATE	MEMORANDA	DEBIT	√	CREDIT	BALANCE

Form 11 Creditors' Ledger.

rm 2

DAILY BLOTTER

...ED BY ARCHIE M. PEISCH C. P. A.

Date	MEMORANDA	Slip No.	Sundry	Charge Sales	Cash Sales	Received On Account

Form 5—Daily Blotter

Form

DAILY BLOTTER

DESIGNED BY ARCHIE M [illegible] A

Date	MEMORANDA	Slip No.	Sundry	Charge Sales	Cash Sales	Received On Account

Form 5—Daily Blotter

DESIGNED BY ARCHIE M. PEISCH, C.P.A.

BANK			DISCOUNTS	PAYABLES			INVENTORIES			COST OF SALES			EXPENSES		
No.	Deposits	Checks	TAKEN	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit

Form 6 Book of Original Entry.

FORM 1 DESIGNED BY ARCHIE M. FEISCH C.P.A.

	SALES		CUSTOMERS RECEIVABLE		DISCOUNTS	CASH IN OFFICE					SUNDRY	
No.	Debit	Credit	Debit	Credit	GIVEN	Received	Paid	Date	MEMORANDA	No.	Debit	Credit

Form 6.—Book of Original Entry

CHAPTER IV

METHODS

A. *Entering Daily Transactions in Records of Original Entry.*

Under this head the method of recording the principal classes of transactions that arise in the case of a Music Store, in the records of original entry will be explained. To assist the explanations, illustrative entries have been made on sample pages of the Book of Original Entry at the end of this section (page 24) for each class of transactions taken up.

For identification and reference purposes each transaction has been given a different dating. The transactions are not intended to be complete for any particular period of time.

Although all figures used are imaginary, it is believed that they are typical of Music Store transactions.

Purchases

Wherever practical and convenient, orders for merchandise, expense supplies and services and new equipment should be reduced to writing. For this purpose, Form No. 1 should be used. The form should be made out in duplicate, one copy to go to concern with whom the order is placed and one copy to be kept on file in office. Such written orders avoid misunderstandings so frequent in the case of oral orders. They also provide a permanent office record of goods, supplies and services on order. This record is very convenient when new commitments are being contemplated, and information in regard to commitments already outstanding is desired.

When an invoice for merchandise, supplies, services or equipment purchased is received, the amount of the invoice should be entered as a credit to the supplying concern in the Payables column and as a debit to the proper Inventory or Expense accounts in the Inventories or Expense columns. See entries on Sample page 1 of Book of Original Entry for following transactions:

May 1. Three new pianos, total cost $850, purchased of Piano Company.

May 2. Four new machines at $60 each purchased of Talking Machine Company.

May 3. Typewriter costing $90.00 purchased of Typewriter Company.

May 4. Office Supplies to the amount of $29.75 purchased of Office Supply Company.

May 5. Garage invoice received for following:

Gas and Oil	$19.20
Repairs	13.65
	$32.85

Invoices should be numbered consecutively as they are entered in the Payables column and should be filed in numerical order. This numerical classification of invoices makes it easy to verify the charges to Inventory and Expense Accounts in the Book or Original Entry at any time that this is desired. When the invoices are posted in the Creditors' Ledger (Form 11) to the credit of the respective creditors' accounts, the number of each invoice should be entered opposite the amount. Then at any time that the detail of any credit entry to a creditor's account is desired it will be possible to go directly from the creditors' account to the invoice. The amounts extended in the Inventories and Expenses columns should be classified by number in accordance with the Classification of Accounts.

Small miscellaneous purchases, of concerns with whom a ledger account is not desired, which are paid for immediately in cash, should be credited to Cash in Office or Cash in Bank according to the source of payment, and debited to the proper Inventory Accounts or Expense Accounts in the Inventory and Expense columns. See Sample page 1 of Book of Original Entry for entries for following transactions:

May 7. Check paid customer for a used instrument, $12.00

May 8. Postage stamps amounting to $10.00 purchased and paid for from cash in office.

Wherever an invoice is received only a brief note will be necessary in the "Memoranda" space. If at any time, detailed information is desired in regard to any particular purchase, this can be obtained by referring to the invoice. In any case, the detail to be written in the "Memoranda" column will depend on the nature of the transaction.

In the case of all pianos and machines taken into stock (Purchases, Exchanges and Repossessions), a Stock Sheet (Form 2) should be filled out in detail for each instrument.

Sales

It is very important that a sales invoice or slip be made out for every sale at the time the sale is made. One copy should be

given to the customer and one copy should be kept on file in the office. This procedure assists in avoiding later misunderstandings with customers at the same time that it provides a convenient memorandum of each sale for bookkeeping purposes. To this end Form No. 3 should be used for Piano and Machine Sales and Form No. 4 for other sales. Sales slips should be numbered consecutively and should be all accounted for at the end of the day.

Other Uses for Form No. 4

Form No. 4 should also be used to record the necessary accounting information in regard to:

1. Cash Receipts on Customers Accounts.
2. Credits to Customers for goods returned.
3. Credits to Customers for allowances on goods sold.

It might appear that by using this one form for such varying purposes a great deal of confusion would result. However, the experience of merchants who are using the system outlined in this treatise demonstrates that less confusion results from using a single form for all these purposes than would result from using a separate form for each of the purposes. In each case, of course, the nature of the transaction will have to be noted clearly on the slip, as

"Received on Account $10.00"
"Credit for Records Returned $5.00"
"Allowance on Merchandise $2.00"

Use of Daily Blotter

The Sales Slips should be recorded in numerical order on the Daily Blotter (Form 5) and posted to the proper columns in accordance with the nature of each transaction. At the end of the day the Daily Blotter should be totaled and summarized as follows:

Sundry
Credits to Customers for Goods Returned
Credits to Customers for allowances on goods sold.

Charge Sales
New Pianos
Used Pianos
New Machines
Used Machines
Records
Small Wares
Sheet Music
Tuning and Repairs
Rentals

Cash Sales
- New Pianos
- Used Pianos
- New Machines
- Used Machines
- Records
- Small Wares
- Sheet Music
- Tuning and Repairs
- Rentals
- Other Income

Received on Account
- Installments Receivable.
- Other Accounts Receivable.

As an alternative to the above the totals on the Daily Blotter might be carried along from day to day and the entries might be summarized and entered in the Book of Original Entry once a week or even once a month.

Determination of Cost of Sales

After the Sales for the day have been classified as indicated above, the cost of each class of sales should be determined as follows:

New Pianos, Used Pianos, New Machines and Used Machines. The cost of each piano or machine sold should be determined from the Stock Sheet (Form 2) of the particular machine or piano sold.

Records, Small Wares and Sheet Music. The cost of these classes of merchandise should be determined as a percentage of selling price on the basis of the average purchase price of each class of merchandise. In this cost proper allowance should be made for the usual loss of merchandise due to breakage, wear and tear, etc. For example, in the case of the store we are using for our illustrative entries, let us assume that the following cost percentages have been determined:

	Per Cent of Selling Price
Records	65 per cent
Small Wares	70 per cent
Sheet Music	80 per cent

These Cost of Sales percentages should be checked up regularly by means of a physical inventory. With this physical inventory the following mathematical proof should be established for each class of merchandise:

Physical Inventory beginning of period	$1,568.92
Add Purchases during period	5,519.25
Total	$7,088.17
Deduct Cost of Sales for period as determined by Percentage Method	4,978.32
Balance on hand (which should agree with Physical inventory at end of period)	2,109.85

Since a difference between the Balance on hand as determined above and the actual Physical Inventory may be due to loss of merchandise through theft or careless bookkeeping as well as to the use of incorrect cost percentages, any material difference ought to be thoroughly investigated.

Posting Blotter to Book of Original Entry

To illustrate the posting of the Daily Blotter to the Book of Original Entry, let us assume that a summary of the Blotter of the Store we are using in our illustrative entries, for May 10, is as follows:

	Selling Price	Cost Price
Sundry		
Credits to Customers for Records Returned	$20.00	$13.00
Credits to Customers for Allowances on Goods Sold	5.25	
	$25.25	$13.00
Charge Sales		
New Pianos	500.00	250.00
Used Pianos	150.00	125.00
New Machines	300.00	200.00
Used Machines	50.00	50.00
Records	40.50	26.33
Small Wares	25.35	17.75
Sheet Music	18.16	14.53
	$1,084.01	$683.61
Cash Sales		
New Pianos	400.00	225.00
Used Pianos	75.00	100.00
New Machines	100.00	65.00
Used Machines	25.00	30.00
Records	10.75	6.99

Small Wares	19.86	13.90
Sheet Music	11.20	8.96
Tuning and Repairs	15.25	
Rentals	12.00	
Interest	5.20	
	$674.26	$449.85
Received on Account		
Installments Receivable		75.20
Other Accounts Receivable		36.45
		$111.65

See entries on Sample page 1 of Book of Original Entry for above.

The selling price of merchandise returned should be debited to Sales and credited to Customers Receivable. The cost price of merchandise returned should be charged back into inventories and credited to Cost of Sales. The selling price of Charge Sales should be debited to Customers Receivable and credited to Sales. The selling price of Cash Sales should be dedited to Cash in Office and credited to Sales. The cost price of both Charge Sales and Cash Sales should be debited to Cost of Sales and credited to Inventories. Collections from customers should be charged to Cash in Office and credited to Customers Receivable.

Cash in Office, Receipts and Payments

All receipts of cash should be entered as a debit to Cash in Office and as a credit to Sales, Accounts Receivable or Other Income in accordance with the procedure outlined in connection with the Daily Blotter. This should be done even when the Cash is deposited immediately in the Bank. All payments from Cash in Office should be entered as a credit to Cash in Office. By doing this the Cash in Office Column, taking into account the balance at the beginning of the month, will always show the amount of cash that is on hand in the office. At the same time a definite routine is established for the handling of all receipts and payments with respect to Cash in Office. Most of the payments from Cash in Office will represent deposits in the bank which should be also entered as a debit to the bank in the "Bank" column. See entry for following on Sample page 1 of Book of Original Entry:

May 11. Deposit in Bank $571.29.

Other payments from cash in Office will consist of the following:

(1) Payment of invoices of creditors with whom ledger accounts are being kept. See entry on Sample page 1 of Book of Original Entry for following transaction:

May 12. Cash to amount of $29.75 paid Office Supply Company.

(2) Cash purchases of concerns with whom ledger accounts are not kept. See May 8 entry on Sample page 1 of Book of Original Entry.

Daily Balancing of Cash in Office

The Cash in Office should be balanced each day in accordance with the following illustration:

Cash Balance beginning of Day................		$50.00
Add: Cash received on account during day as per Daily Blotter......	$298.32	
Cash Sales per Daily Blotter....	129.86	
		428.18
Totals..............................		$478.18
Deduct Payments out of Cash in Office..........		421.63
Cash Balance end of Day.....................		$56.55

Cash in Bank. Deposits and Checks

As already mentioned, amounts taken from Cash in Office and deposited in the bank should be entered in the Book of Original Entry as a debit to Bank and as a credit to Cash in Office. Where money is borrowed of the Bank and is deposited in the Bank for checking purposes, the amount credited by the Bank as a deposit should be entered in the Bank Deposit column and the principal of the note given the Bank should be entered as a credit to Notes Payable in the Sundry column. See entry on Sample page 2 of Book of Original Entry for following transaction:

May 13. Note given to Bank for loan of $1,000 which is deposited in Bank for checking purposes.

If the Bank deducts the interest to be paid, in advance, from the face of the note and credits the Store with the balance, the amount of the discount should be debited to Interest in the Sundry Debit column. See entry for following transaction on Sample page 2 of Book of Original Entry:

May 14 Note given to Bank for $500. Note is discounted 6% and balance credited to store as deposit for checking purposes.

The ordinary payments from bank will consist of the following:

(1) Cash purchases of concerns with whom ledger accounts are not kept. See entry on Sample page 2 of Book of Original Entry for following transaction:

> May 15. Check for $7.50 given to Plumbing Company for services rendered.

(2) Payments to creditors with whom ledger accounts are kept, on account of invoices. See entry on Sample page 2 of Book of Original Entry for following transaction:

> May 16. Check for $850.00 given to Piano Company.

Discounts Taken

When a discount is taken upon the payment of an invoice, the amount of the invoice paid should be entered to the debit of the creditor in the Payables Debit column, the amount of cash paid should be entered to the credit of Cash in Office, or to the credit of Bank, as the case may be, and the amount of the discount should be entered in the Discounts Taken column. See Entry on Sample page 2 of Book of Original Entry for the following transaction:

> May 17. Check for $32.19 given to Garage Company in payment of invoice of May 3, amounting to $32.85 less 2% discount.

Discounts Given

When a discount is given to a customer the amount of the discount should be entered in the Discounts Given column and also in the Accounts Receivable Credit column. See entry for May 10, "Credit to Customer for Allowance" on Sample page 1 of Book of Original Entry.

Repossessions

When a piano or machine is repossessed the debit balance still remaining in the customer's account should be credited to the customer in the Accounts Receivable column, the depreciated value of the instrument repossessed should be debited to the proper inventory account in the inventories column and the difference between the amount credited to the customer and the amount debited to inventories should be debited to Allowance for loss on Repossessions in the Sundry column. See entry for the following transaction on Sample page 2 of Book of Original Entry:

> May 18. Piano estimated to be worth $100 in terms of purchase price is repossessed. Customer still owes $175 on account.

Exchanges

When an instrument is taken in exchange for another, the instrument should be charged to the proper inventory account at the lower of the following:

(1) Amount allowed for instruments.

(2) Inventory value of instrument.

See entry on Sample page 2 of Book of Original Entry for following transaction:

May 19. Piano costing $400 is sold to Customer for $825. A used piano estimated to be worth $75 is taken in exchange, for which an allowance of $125 is made.

B *Monthly Adjusting Entries*

Since the principal purpose of accounting is to show the net profit or net loss that has resulted from each period's operations, it is essential that the revenue and expenses of each period be clearly distinguished from the revenues and expenses of the period that precedes and the period that succeeds. Each period must be credited with its proper share of the revenues and debited with its proper share of the expense of the business. For example, certain expenses, as Fire Insurance, Taxes and Liability Insurance are ordinarily paid only once a year. Provision should therefore be made to charge one-twelfth of the total annual charge for these expenses against each month's operations. Also the equipment of a store as Store Fixtures, Office Equipment and Auto Equipment will some day have to be replaced. Therefore the cost of such equipment should be charged to Expense pro rata month by month during the life of the equipment by means of a monthly depreciation charge. The following are examples of the usual monthly charges for Insurance, Taxes, Depreciation and Bad Debts that should be ordinarily made in the case of a Music Store each month (See entry for May 30, Sample page 2 of Book of Original Entry):

	Debit	Credit
1. Fire Insurance	$10.00	
Fire Insurance Prepaid		$10.00

(One-twelfth of annual charge for Fire Insurance)

Fire Insurance is ordinarily paid in advance. When the premiums are paid the amount paid should be charged to Prepaid Fire Insurance in the Sundry column.

	Debit	Credit
2. Auto Insurance	$5.60	
Auto Insurance Prepaid		$5.60

(One-twelfth of annual charge for Auto Insurance)

Procedure with Auto Insurance is the same as with Fire Insurance.

	Debit	Credit
3. Taxes	$31.25	
Allowance for Taxes		$31.25
(One-twelfth of annual charge for Taxes)		

Taxes are ordinarily postpaid. When the tax bill is paid the amount should be charged to Allowance for Taxes in the Sundry column.

	Debit	Credit
4. Depreciation of Building	$50.00	
Allowance for Depreciation of Building		$50.00
5. Depreciation of Store Fixtures.....	15.00	
Allowance for Depreciation of Store Fixtures		15.00
6. Depreciation of Auto Equipment...	75.00	
Allowance for Depreciation of Auto Equipment		75.00
7. Depreciation of Office Equipment...	31.00	
Allowance for Depreciation of Office Equipment		31.00

The amount to be charged off every month for the depreciation of a depreciable asset depends, of course, on the cost of the asset and its estimated life. To illustrate in the case of a building costing $15,000 with an estimated life of 25 years, the annual charge for depreciation will be 1/25 of $15,000, or $600 and the monthly charge will be 1/12 of $600, or $50.

	Debit	Credit
8. Losses on Repossessions, Bad Debts, etc.	$342.56	
Allowance for Losses on Repossession, etc.		$342.56

The amount to be set aside for possible losses from Repossessions, Bad Debts, etc., should be determined either on the basis of the Sales for the month or on the basis of the Accounts Receivable outstanding at the end of the month. At best this estimate of possible losses from this source is a guess, and nothing but the dealers' personal experience in his own particular store will help him to make the guess reliable enough to be worth while.

BANK			DISCOUNTS	PAYABLES			INVENTORIES			COST OF SALES			EXPENSES		
No.	Deposits	Checks	TAKEN	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit

Sample Page 1 Left

No.	5 SALES Debit	SALES Credit	CUSTOMERS RECEIVABLE Debit	CUSTOMERS RECEIVABLE Credit	DISCOUNTS GIVEN	CASH IN OFFICE Received	CASH IN OFFICE Paid	Date	MEMORANDA	No.	SUNDRY Debit	SUNDRY Credit
								1923				
								5 1	Piano Company			
								2	Talking Machine Company			
								3	Typewriter Co., - Typewriter	115	90	
								4	Office Supply Company			
								5	Garage Company			
									" "			
								7	Cash paid for Used Cornet			
							10	8	Postage Stamps			
5	20			20				10	Credits to Customers for returns			
				525	525			10	Credits to Customers for Allowances			
			108401					10	Charge Sales			
1		500							New Pianos			
2		150							Used Pianos			
3		300							New Machines			
4		50							Used Machines			
5		4056							Records			
6		2535							Small Wares			
7		1816							Sheet Music			
						67426		10	Cash Sales			
1		400							New Pianos			
2		75							Used Pianos			
3		100							New Machines			
4		25							Used Machines			
5		1075							Records			
6		1986							Small Wares			
7		1120							Sheet Music			
8		1525							Tuning and Repairs			
9		12							Rentals			
									Interest	71		520
				7520		7520		10	Rec'd on Installments Receivable			
				3645		3645		10	Rec'd on Other Accounts Receivable			
							57129	11	Deposit in Bank			
							2975	12	Office Supply Company			
	20	175307	108401	13690	525	78591	61104				90	520

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BANK			DISCOUNTS	PAYABLES			104 INVENTORIES			5 COST OF SALES			6 EXPENSES		
No	Deposits	Checks	TAKEN	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit
				1		850	1	850							
				2		240	2	240							
				3		90									
				4		29 75							23	29 75	
				5		32 85							5	19 20	
													7	13 65	
2031		12					6	12							
													24	10	
							5	13		5		13			
							1		250	1	250				
							2		125	2	125				
							3		200	3	200				
							4		50	4	50				
							5		26 33	5	26 33				
							6		17 75	6	17 75				
							7		14 53	7	14 53				
							1		225	1	225				
							2		100	2	100				
							3		65	3	65				
							4		30	4	30				
							5		6 99	5	6 99				
							6		13 90	6	13 90				
							7		8 96	7	8 96				
	571 29														
					29 75										
	571 29	12			29 75	1242 60		1115	1133 46		1133 46	13		72 60	

SAMPLE PAGE 2 LEFT

No.	Sales Debit	Sales Credit	Customers Receivable Debit	Customers Receivable Credit	Discounts Given	Cash in Office Received	Cash in Office Paid	Date	Memoranda	No.	Sundry Debit	Sundry Credit
								1925				
								5 13	Notes Payable to Bank	2011		1000
								14	Notes Payable to Bank	2011		500
									Discount on Note	81	7 50	
								15	Plumbing Company			
								16	Piano Company			
								17	Garage Company			
								18	Piano Repossessed			
									Allowance for Loss on Repossessions	204	75	
				175					Customer Credit			
1		825	825	125				19	Customer			
									Allowance for Loss on Rep. etc.		50	
									Used Piano Taken			
									Monthly Adjusting Entries			
								5 30	Fire Insurance	1242		10
								30	Auto Insurance	1243		5 60
								30	Taxes	2033		51 25
								30	Depreciation of Building	212		50
								30	Depreciation of Store Fixtures	213		15
								30	Depreciation of Auto Equipment	214		75
								30	Depreciation of Office Equipment	215		31
								30	Loss on Repossessions, etc.	204		342 56
		[illegible]	825	300							132 50	2010 43
	20	[illegible]	1909 01	436 00	5	785 91	611 54				222 50	2065 61

SAMPLE PAGE 2 RIGHT

BANK			DISCOUNTS	PAYABLES			101 INVENTORIES			5 COST OF SALES			6 EXPENSES		
No.	Deposits	Checks	TAKEN	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit	No.	Debit	Credit
	1000														
	19250														
2032		750											16	750	
2033		850			850										
2034		3219	66		3285										
							2	100							
									400	1	400				
							2	75							
													14	10	
													6	560	
													29	3125	
													11	50	
													12	15	
													4	75	
													13	31	
													19	34256	
	149250	88969	66		88285			175	400		400			56791	
	206379	90169	66		91260	124260		1290	153346		53346	13		64051	

SALES			CUSTOMERS RECEIVABLE		DISCOUNTS	CASH IN OFFICE			MEMORANDA		SUNDRY	
No.	Debit	Credit	Debit	Credit	GIVEN	Received	Paid	Date	MEMORANDA	No.	Debit	Credit

C. *Proving and Analyzing Book of Original Entry*

The totals of all the debit columns of the Book of Original Entry should at all times equal the totals of all the credit columns. This proof should be established at the end of each page. After a page has been proved, the totals of the page just preceding should be brought forward and added on at the bottom of the page, just as has been done in the case of the sample pages of the Book of Original Entry. The accumulated debit and credit totals should then also be proved as to the equality of debits and credits.

The following is a typical summary of the accumulated debit and credit totals of the last page of the Book of Original Entry of a Music Store:

March Transactions

	Debit	Credit
Sales	$213.22	$6,956.83
Accounts Receivable	5,428.31	6,173.82
Discounts Given	13.28	
Cash in Office	6,091.34	5,901.21
Sundry	519.26	2,537.05
Bank	5,817.23	6,148.21
Discounts Taken		56.25
Payables	5,831.26	1,182.13
Inventories	3,499.26	4,073.21
Cost of Sale	4,073.21	64.12
Expenses	1,698.26	1.80
	$33,094.63	$33,094.63

After the accumulated debit and credit totals of the last page have been summarized in accordance with the above example, the entries in the Sales, Accounts Receivable, Sundry, Inventories, and Expense column should be further summarized and classified as follows:

Sales

	Debit	Credit
41 New Pianos		$1,528.00
42 Used Pianos		693.00
43 New Machines		2,333.01
44 Used Machines		185.00
45 Records	$192.50	1,036.25
46 Small Wares	19.50	372.56
47 Sheet Music	1.22	218.25
48 Tuning and Repair		478.26
49 Rentals		112.50
Totals	$213.22	$6,956.83

Accounts Receivable		Debit	Credit
1031	Installments Receivable	$3,525.00	$4,175.00
1033	Other Accounts Receivable	1,903.31	1,998.82
	Totals	$5,428.31	$6,173.82
Sundry		Debit	Credit
81	Interest Paid	$103.26	
2011	Notes Payable		$1,910.00
71	Interest Received		57.65
115	Office Equipment	400.00	
1242	Fire Insurance Prepaid	16.00	12.00
1243	Auto Insurance Prepaid		6.60
2033	Allowance for Taxes		29.80
212	Allowance for Dep. of Building...		50.00
213	Allowance for Dep., Store Equip..		15.00
214	Allowance for Dep., Auto Equip..		75.00
215	Allowance for Dep., Office Equip..		31.00
204	Allowance for Bad Debts		350.00
	Totals	$519.26	$2,537.05
Inventories		Debit	Credit
1041	New Pianos	$845.00	$764.20
1042	Used Pianos	125.00	518.00
1043	New Machines	950.00	1,516.45
1044	Used Machines	50.00	170.00
1045	Records	945.20	673.56
1046	Small Wares	178.25	278.22
1047	Sheet Music	315.81	152.78
	Totals	$3,409.26	$4,073.21
Cost of Sales		Debit	Credit
51	New Pianos	$764.20	
52	Used Pianos	518.00	
53	New Machines	1,516.45	
54	Used Machines	170.00	
55	Records	673.56	53.50
56	Small Wares	278.22	9.25
57	Sheet Music	152.78	1.37
	Totals	$4,073.21	$64.12
Expenses		Debit	Credit
61	Administrative Salaries	$250.00	
62	Advertising	65.20	

63 Association Dues	4.00	
64 Auto Depreciation	75.00	
65 Auto Gas and Oil	68.29	
66 Auto Insurance	6.60	
67 Auto Repairs	35.29	
68 Contributions	5.00	
69 Collection Expense	32.17	
610 Delivery Hire	29.85	
611 Depreciation of Building	50.00	
612 Depreciation of Store Equipment	15.00	
613 Depreciation of Office Equipment	31.00	
614 Fire Insurance	12.00	
615 Freight and Express	29.31	
616 Heat and Light	27.28	
617 Janitor Service and Supplies	22.36	
618 Life Insurance	4.80	
619 Less from Repossessions, Bad Accounts, etc.	350.00	
620 Miscellaneous General Expense	16.25	
621 Miscellaneous Selling Expense	11.28	
622 Office Salaries	100.00	
623 Office Supplies	35.28	
624 Postage, Telephone and Telegraph	36.85	$1.80
625 Professional Services	15.00	
626 Rent	10.00	
627 Sales Commissions	52.28	
628 Sales Salaries	200.00	
629 Taxes	29.80	
630 Traveling Expenses	28.61	
631 Tuning, Repairs—Expense	49.76	
Totals	$1,698.26	$1.80

D. *Posting to Ledger.*

Posting to Customers' Ledger.

Amounts entered to the debit and credit of installment accounts on the Daily Blotter and in the Book of Original Entry should be posted daily to the Installment Ledger (Form 9). As indicated by the headings of this form, one sheet is to be devoted to each installment sale. When the sale is completed and the Sales Slip (Form No. 3) is turned into the office, all the information called for under the heading "Memoranda" should be filled in on Form 9. The balance due on the transaction should be extended into the "Balance" column under "Principal." When money is received on account of installments due, the amount paid and the date should be entered in the "Amt." and "Date" columns, respectively. In the column headed √ the month's installments that have been paid should be checked. In this way the ledger record will show at a glance the number of installments paid, the number of installments due and in arrears, the amounts paid and the balance due in the case of any sale. Under "Interest," the amount of interest due each month should be entered in the "Amt. due" column on the proper month's line. Then the amount that is paid on account of interest and the date that it is paid should be entered in the "Amt." and "Date" columns respectively.

Amounts entered on the Daily Blotter and in the Book of Original Entry to the debit and credit of Customers' accounts on other than installment sales should be posted daily to Form 10. Both sides of this form are identical. One sheet should be used for each customer's account.

Posting to Creditors' Ledger

Entries to the debit and credit of creditors' accounts in the Payable column should be posted regularly to the Creditors' Ledger (Form 11).

Posting to General Ledger

After the Book of Original Entry has been summarized, the various columns should be posted to the General Ledger as follows:

Sales. The total debit and credit each class of sale as per the summary of the Sales debits and credits should be posted to the debit and credit respectively of the proper Sales Account.

Accounts Receivable. The total debit and credit of installments Receivable, as per the Summary, should be posted to the

debit and credit respectively of the account with Installments Receivable. The total debit and credit of Other Accounts Receivable, as per the Summary, should be posted to the debit and credit, respectively, of the account with Other Accounts Receivable.

Discounts Given. The total of this column should be posted to the debit of the account with Discounts Given.

Cash in Office. The total of the Received column should be posted to the debit of the account with Cash in Office and the total of the Paid column should be posted to the credit of the account with Cash in Office.

Sundry. The total debit and credit of each account appearing in the Sundry should be posted to the debit and credit of the account in the General Ledger.

Bank. The total of the Deposits column should be posted to the debit of the account with Cash in Bank and the total of the Checks column should be posted to the credit of the account with Cash in Bank.

Discounts Taken. The total of this column should be posted to the credit of the account with Discounts Taken.

Payables. The total debit should be posted to the debit of the account with Accounts Payable and the total credit should be posted to the credit of the account with Accounts Payable.

Inventories. The total debit and credit of each Inventory account, as per the Summary should be posted to the debit and credit, respectively, of the proper Inventories account in the General Ledger.

Cost of Sales. The total debit and credit of each Cost of Sales Account, as per the Summary, should be posted to the debit and credit of the proper Cost of Sales Account in the General Ledger.

Expenses. The total debit and credit of each Expense Account, as per the Summary, should be posted to the debit and credit, respectively of the proper Expense Account in the General Ledger.

CHAPTER V

Trial Balance

After the Book of Original Entry has been posted to the General Ledger, all the accounts in the General Ledger should be listed with their debit and credit balances extended opposite. The total debits should equal the total credits. This list of account balances is known as a Trial Balance. The following is a typical trial balance of Music Store accounts that have been kept in accordance with the system herein outlined for the period, January 1, 1923 to March 1, 1923.

Trial Balance of Music Store, March 31, 1923

	Debit	Credit
Cash in Office	$50.00	
Cash in Bank	2,368.75	
Installments Receivable	19,213.62	
Notes Receivable	1,200.00	
Other Customers Receivable	4,225.35	
Inventories		
New Pianos	10,150.00	
Used Pianos	1,329.50	
New Machines	13,535.59	
Used Machines	740.35	
Records	3,128.60	
Small Wares	1,358.26	
Sheet Music	918.21	
Land	1,400.00	
Buildings	15,000.00	
Store Equipment	1,800.00	
Auto Equipment	3,600.00	
Office Equipment	1,451.75	
Store Supplies	110.21	
Auto Supplies	35.26	
Office Supplies	215.28	
Prepaid Fire Insurance	35.60	
Prepaid Auto Insurance	29.35	
Notes Payable—Bank		$9,000.00
Notes Payable—Other		5,000.00
Accounts Payable		1,829.32
Salaries and Wages Accrued		213.28
Commissions Accrued		39.56
Taxes Accrued		375.00

Allowance for Bad Debts		515.25
Mortgage Payable		5,000.00
Allowance for Depreciation		
Building		150.00
Store Equipment		45.00
Auto Equipment		225.00
Office Equipment		93.00
Capital Stock		40,000.00
Surplus		15,285.61
Sales		
New Pianos		6,035.00
Used Pianos		1,962.00
New Machines		9,626.86
Used Machines		513.50
Records		5,293.85
Small Wares		1,139.21
Sheet Music		1,358.23
Tuning Repairs		956.29
Rentals		456.50
Cost of Sales		
New Pianos	3,134.54	
Used Pianos	1,825.00	
New Machines	6,256.81	
Used Machines	505.00	
Records	3,441.00	
Small Wares	797.45	
Sheet Music	1,086.58	
Expenses		
Administrative Salaries	750.00	
Advertising	613.28	
Association Dues	12.00	
Auto Depreciation	225.00	
Auto Gas and Oil	371.29	
Auto Insurance	16.80	
Auto Repairs	96.27	
Contributions	12.95	
Collection Expense	49.35	
Delivery Hire	41.19	
Depreciation of Building	150.00	
Depreciation of Store Equipment	45.00	
Depreciation of Office Equipment	93.00	
Fire Insurance	36.00	
Freight and Express	58.23	

Heat and Light	81.32	
Janitor Services and Supplies	61.46	
Life Insurance	14.40	
Loss from Bad Debts	919.25	
Miscellaneous Selling Expenses	29.27	
Miscellaneous General Expenses	65.28	
Office Salaries	300.00	
Office Supplies	63.39	
Postage, Telephone and Telegraph	135.26	
Professional Services	175.00	
Rent	30.00	
Sales Commissions	309.28	
Sales Salaries	600.00	
Taxes	69.40	
Traveling Expenses	726.38	
Tuning and Repairs Expense	340.78	
Discounts Given	340.78	
Interest Paid	110.56	
Discounts Taken		258.26
Interest Received		513.51
Totals	$105,884.23	$105,884.23

From the Asset and Liability Accounts in the above Trial Balance the following Balance Sheet can be prepared:

Balance Sheet, March 31, 1923

Current Assets			
Cash in Office		$50.00	
Cash in Bank		2,368.75	
Customers Receivable			
Installments Rec.	$19,213.62		
Notes Receivable	1,200.00		
Other Customers Rec.	4,225.35		
	24,638.97		
Less Allowance for Bad Debts	515.25		
		24,123.72	
Inventories			
New Pianos	10,150.00		
Used Pianos	1,329.50		
New Machines	13,535.59		
Used Machines	740.35		
Records	3,128.60		
Small Wares	1,358.26		
Sheet Music	918.21		
		31,160.51	
Total Current Assets			57,702.98
Fixed Assets			
Land		1,400.00	
Buildings	15,000.00		
Less Allowance for Dep.	150.00		
		14,850.00	
Store Equipment	1,800.00		
Less Allowance for Dep.	45.00		
		1,755.00	
Auto Equipment	3,600.00		
Less Allowance for Dep.	225.00		
		3,375.00	
Office Equipment	1,451.75		
Less Allowance for Dep.	93.00		
		1,358.75	
Total Fixed Assets			22,738.75

Working Assets and Prepaid Expenses		
Store Supplies	110.21	
Auto Supplies	35.26	
Office Supplies	215.28	
Prepaid Fire Insurance	35.60	
Prepaid Auto Insurance	29.35	
Total Working Assets		425.70
Total Assets		$80,867.43
Liabilities		
Current Liabilities		
Notes Payable—Bank	$9,000.00	
Notes Payable—Other	5,000.00	
Accounts Payable	1,829.32	
Salaries and Wages Accrued	213.28	
Commissions Accrued	39.56	
Taxes Accrued	375.00	
Total Current Liabilities		$16,457.16
Mortgage Payable		5,000.00
Total Liabilities		21,457.16
Capital Stock		40,000.00
Surplus		
Balance January 1, 1923	$15,285.61	
Net Income 1-1-23 to 3-31-23	4,124.66	
		19,410.27
Total		$80,867.43

The following Statement of Operations can next be prepared from the Operating Accounts in the Trial Balance:

Statement of Operations for Period 1-1-23 to 3-31-23

Sales	Selling Price	Cost Price	Gross Profit
New Pianos	$6,035.00	$3,134.54	$2,900.46
Used Pianos	1,962.00	1,825.00	137.00
New Machines	9,626.86	6,256.81	3,370.05
Used Machines	513.50	505.00	8.50
Records	5,293.85	3,441.00	1,852.85
Small Wares	1,139.21	797.45	341.76
Sheet Music	1,358.23	1,086.58	271.65
Tuning and Repairs	956.29		956.29
Rentals	456.50		456.50
Totals	27,341.44	17,046.38	10,295.06
Gross Profit			10,295.06
Deduct Expenses			
Administrative Salaries		750.00	
Advertising		613.28	
Association Dues		12.00	
Auto Depreciation		225.00	
Auto Gas and Oil		371.29	
Auto Insurance		16.80	
Auto Repairs		96.27	
Contributions		12.95	
Collection Expense		49.35	
Delivery Hire		41.19	
Depreciation of Building		150.00	
Depreciation of Store Equipment		45.00	
Depreciation of Office Equipment		93.00	
Fire Insurance		36.00	
Freight and Express		58.23	

Heat and Light	81.32	
Janitor Service and Supplies	61.46	
Life Insurance	14.40	
Loss from Bad Debts	919.25	
Miscellaneous Selling Expenses	29.27	
Miscellaneous General Expense	65.28	
Office Salaries	300.00	
Office Supplies	63.39	
Postage, Telephone, Telegraph	135.26	
Professional Services	175.00	
Rent	30.00	
Sales Commissions	309.28	
Sales Salaries	600.00	
Taxes	69.40	
Traveling Expenses	726.38	
Tuning and Repairs Expense	340.78	
		6,490.83
Net Operating Income		3,804.23
Deduct: Discounts Given	340.78	
Interest Paid	110.56	
		451.34
		3,352.89
Add: Discounts Taken	258.26	
Interest Received	513.51	
		771.77
Net Income to Surplus		$4,124.66

The following Statement of Operations for the month of March can next be prepared from the Analysis of the Sales, Discounts Taken, Cost of Sales, and Expense columns above

Statement of Operations for March, 1922

	Selling Price	Cost Price	Gross Profit
Sales			
New Pianos	$1,528.00	$764.20	$763.80
Used Pianos	693.00	518.00	175.00
New Machines	2,333.01	1,516.45	816.56
Used Machines	185.00	170.00	15.00
Records	843.75	620.06	223.69
Small Wares	353.06	268.97	84.09
Sheet Music	217.03	151.41	65.62
Tuning and Repairs	478.26		478.26
Rentals	112.50		112.50
Totals	6,743.61	4,009.09	2,734.52
Gross Profit			$2,734.52

Deduct Expenses

Administrative Salaries	$250.00
Advertising	65.20
Association Dues	4.00
Auto Depreciation	75.00
Auto Gas and Oil	68.29
Auto Insurance	6.60
Auto Repairs	35.29
Contributions	5.00
Collection Expense	32.17
Delivery Hire	29.85
Depreciation of Building	50.00
Depreciation of Store Equipment	15.00
Depreciation of Office Equipment	31.00
Fire Insurance	12.00
Freight and Express	29.31
Heat and Light	27.28
Janitor Service and Supplies	22.36
Life Insurance	4.80
Loss from Repossessions, etc.	350.00
Miscellaneous General Expense	16.25
Miscellaneous Selling Expense	11.28
Office Salaries	100.00
Office Supplies	35.28
Postage, Telephone and Telegraph	35.05
Professional Services	15.00

Rent	10.00	
Sales Commissions	52.28	
Sales Salaries	200.00	
Taxes	29.80	
Travelling Expenses	28.61	
Tuning and Repairs	49.76	
		1696.46
Net Operating Profit..............................		1038.06
Deduct: Interest Paid	$103.26	
Discounts Given	13.28	
		116.54
		921.52
Add: Interest Received	57.65	
Discounts Taken	56.25	
		113.90
Net Income		$1035.42

CHAPTER VI

Alternative Methods of Reporting Profit on Installment Sales

Merchants selling goods on the installment plan are offered the following alternative methods of reporting their profits for Federal Income Tax Purposes:

1. The gross profit on installment sales may be reported as taxable income on the basis that the gross profit was realized when the sales were made. In accordance with this method, if a piano costing $600.00 were sold for $1,200.00 during 1922, the entire gross profit of $600, regardless of how much of the sale price had been collected in Cash, would be reported as taxable income for the year 1922. This is, of course, the usual accounting method of determining the income realized from any year's operations. From the ordinary business point of view it is the proper method because when adequate provision has been made for possible losses from uncollectible accounts, this method best distinguishes the results of any operating period from the results of the periods that precede and succeed it. However, from the standpoint of the Income Tax, this method is subject to the serious disadvantage that the gross profit made on the installment sales of a particular year may not be collected in cash for a long period of time, whereas the income tax for the year must be paid immediately in cash.

2. The gross profit on installment sales may be reported as taxable income to the extent to which the gross profit has been collected in cash. To illustrate, let us assume in the case of the example above, that $500.00 had been collected in cash on the sale during the year 1922. On this basis, $\frac{500}{1200}$ of the Accounts Receivable, and therefore $\frac{500}{1200}$ of the Gross Profit of $600, or $250, should be reported as taxable income for the year 1922. This method enables the dealer to postpone the payment of the income tax on installment profits until the profits have been collected in cash, and for this good financial reason, is the better of the two methods. This method is generally referred to as the "Deferred Profits" method.

Accounting Procedure on Deferred Profits Basis

Theoretically, the profit collected and the profit deferred should be accounted for separately on each individual sale where the Deferred Profits method is used. Practically, however, very

few merchants have the accounting facilities to do this with any degree of accuracy. As a result, the Treasury Department permits merchants to report the gross profit collected on any year's sales of a particular class of merchandise as Pianos, Machines, etc., on the basis of the average gross profit for the total sales of the year. In this connection the following quotation from the pamphlet, "Federal Income Tax Returns on Installment Sales" of the Music Industries, Chamber of Commerce, is of interest:

"The gross profit on the collections from installment sales during any year is that portion which the total expected profit bears to the total sales price. The expected profit on any sale is the difference between the cost or latest inventory value at the time of the sale, and the sale price. If the taxpayer's books do not show the cost and selling price of each article sold, which they seldom do, then the average gross profit for total sales of all classes can be used. (Office Decision 25, Article 42 of Regulations 62 and Office Decision 1107.) When the taxpayer handles more than one line, as, for instance, phonographs, pianos and band instruments, the gross profits of each line should be computed separately.

"Expenses incident to installment sales should be deducted from the tax return for the year in which they were incurred (Office Decision 844), even when incident to collections made during the year on sales of previous years (Income Tax Unit Decision 1227), or when the expenses were incurred definitely for the purpose of realizing the profit in future years. (Committee on Appeals and Review Recommendation 1216.) Similarly, losses should be deducted at the time determined."

The first step in the use of the Deferred Profits Method is to determine the rate of gross profit on each year's sales according to principal classes of merchandise, as Pianos, Machines, Records and Small Wares and Sheet Music. Then the amount of gross profit collected during any given year may be determined in either of the following ways:

1. Classify all collections on installment accounts as received during the year, according to the year in which the installment accounts were brought on the books. Then multiply the amount of collections on each year's accounts by the rate of Gross Profit for that particular year and the result is the amount of gross profit collected during the current year to be reported as income for Income tax purposes.

2. Classify the Installment Accounts due at the end of the year according to the year in which each account was brought on the books. Then multiply the total installments receivable of each year by the rate of gross profit of that year and the resulting amount is the amount of gross profit on that year's business that is still uncollected. Where this procedure is followed at the end of each year, the profit collected for any given year would be the sum of the Net Profit for the year as determined by the customary method of double entry accounting outlined in the system above and the Profit Uncollected at the beginning of the year less the Profit Uncollected at the end of the year.

To illustrate for a given Music Store, let us assume the following facts relative to Piano Installment sales and collections:

	1920		1921		1922	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Sales	$100,000	100%	$120,000	100%	$150,000	100%
Cost of Sales	55,000	55%	60,000	50%	90,000	60%
Gross Profit	45,000	45%	60,000	50%	60,000	40%

On January 1, 1922, the following accounts are still uncollected:

Accounts representing sales made in 1920	$40,000
Accounts representing sales made in 1921	80,000
Total	$120,000

During the year 1922, collections have been made on the various years' accounts as follows:

Accounts representing sales made in 1920	$30,000
Accounts representing sales made in 1921	40,000
Accounts representing sales made in 1922	50,000
Total	$120,000

On December 31, 1922, the following accounts are still uncollected:

Accounts representing sales made in 1920	$10,000
Accounts representing sales made in 1921	40,000
Accounts representing sales made in 1922	100,000
Total	$150,000

The following is a Statement of Operations for the year 1922 as determined in accordance with the methods outlined in the system recommended in this treatise:

Sales	$150,000
Cost of Sales	90,000
Gross Profit	60,000

Deduct General and Selling Expenses..	30,000	
Net Operating Profit	30,000	
Add Interest Received	4,000	
		34,000
Deduct Interest Paid		3,000
Net Income to Surplus (Profit and Loss)		$31,000

In accordance with the first method outlined above, the collected profit for the year 1922 would be determined from the collections of the various years as follows:

Year	Collections	Rate of Gross Profit	Gross Profit
1920	$30,000	45%	$13,500
1921	40,000	50%	20,000
1922	50,000	40%	20,000
	$120,000		$53,500

The Net Taxable Income for 1922 would therefore be as follows:

Gross Profit collected	$53,500
Deduct General and Selling Expenses......	30,000
	$23,500
Add Interest Received	4,000
	$27,500
Deduct Interest Paid	3,000
Net Taxable Income	$24,500

In accordance with the second method outlined above, the collected profit for the year 1922 would be determined from an analysis of the uncollected accounts as of January 1, 1922, the Statement of Operations for 1922, and an analysis of the uncollected accounts as of December 31, 1922, as follows:

Analysis of Accounts Receivable, January 1, 1922

Year	Amount	Rate of Gross Profit	Gross Profit Uncollected
1920	$40,000	45%	$18,000
1921	80,000	50%	40,000
Totals	$120,000		$58,000

Analysis of Accounts Receivable, December 31, 1922

Year	Amount	Rate of Gross Profit	Gross Profit Uncollected
1920	$10,000	45%	$ 4,500
1921	40,000	50%	20,000
1922	100,000	40%	40,000
Totals	$150,000		$64,500

Determination of Net Taxable Income for 1922

Uncollected Profit, January 1, 1922..............	$58,000
Add Gross Profit as per Statement of Operations	60,000
	118,000
Deduct Uncollected Profit, December 31, 1922....	64,500
Gross Profit realized for 1922....................	53,500
Deduct General and Selling Expenses...........	30,000
Net Operating Profit Realized..................	23,500
Add Interest Received	4,000
	27,500
Deduct Interest Paid	3,000
Net Taxable Income	$24,500

Loss on Repossessions

In the system outlined above, provision has been made to anticipate losses on bad debts, repossessions, etc., by a regular monthly charge to an Expense account called Loss on Bad Debts, Repossessions, etc. Where the Deferred Profits basis of reporting taxable income is used, the amount of this charge for Bad Debts, that represents anticipated losses on installment accounts is not an allowable Deduction from Gross Income for obvious reasons and will have to be eliminated from the expenses for Income Tax purposes. If there are any actual losses from Repossessions during the year these losses should be deducted from the Uncollected Profit of the year during which the sale was originally made.

To illustrate, let as assume that during the year 1922 there had been repossessions as follows:

Year of Sale	Amount still due on account	%	Average Cost Amount	Loss
1920	$1000	55%	$550	$450
1921	1200	50%	$600	$600
	Total $2200		$1,150	$1,050

The loss of $450 on the 1920 accounts should be deducted from the Uncollected Profit of $18,000 for 1920 still outstanding January 1, 1922, and the loss of $600 on the 1921 accounts should be deducted from the Uncollected Profit of $40,000 for 1921 still outstanding January 1, 1922.

Let us further assume that during the year 1922 anticipated losses on installment accounts had been charged to Expenses to the amount of $3000. The Net Taxable Income for 1922 would then be determined as follows:

Uncollected Profit January 1, 1922....	$58,000	
Deduct Losses on Repossessions involving 1920 and 1921 accounts.........	1,050	
		$56,950
Add Gross Profit as per Statement of Operations		60,000
		116,950
Deduct Uncollected Profit, Dec. 31, 1922		64,500
Gross Profit Realized for 1922........		52,450
Deduct: General and Selling Expenses	30,000	
Less Anticipated Installment Losses.	3,000	
		27,000
Net Operating Profit Realized........		25,450
Add Interest Received		4,000
		29,450
Deduct Interest Paid		3,000
Net Taxable Income		$26,450

Advantages and Disadvantages of Two Methods

It is clear that both of the above methods of determining Collected and Uncollected Gross Profit accomplish the same result so far as the determination of the Net Taxable Income is

concerned. The first method, however, requires a great deal of accounting work in that every collection throughout the year has to be analyzed according to the age of the account to which it is to be applied. Where this work of analysis is done every day, the amount of old accounts being collected can be determined at any time, which should be very useful information to those in charge of collections. On the other hand, the second method is a great deal easier to carry out in that it requires only an analysis, according to year, of the outstanding Installments Receivable at the end of each year. Therefore, where the daily information relative to the age of accounts collected is not desired, this second method is to be recommended.